

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ann Arbor District Library	County Washtenaw
Audit Date June 30, 2005	Opinion Date September 23, 2005	Date Accountant Report Submitted to State: February 16, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

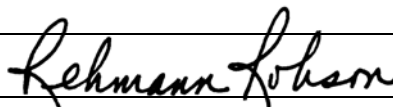
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			



Ann Arbor, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
June 30, 2005**



REHMANN ROBSON

Certified Public Accountants



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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 23, 2005

To the Board of Trustees
Ann Arbor District Library
Ann Arbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **ANN ARBOR DISTRICT LIBRARY**, as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Ann Arbor District Library, as of June 30, 2005, and the respective changes in financial position thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Ann Arbor District Library's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.

MANAGEMENT'S DISCUSSION and ANALYSIS

Ann Arbor District Library Management's Discussion & Analysis

As management of the Ann Arbor District Library, we offer readers of the Library's financial statements this narrative overview and analysis of the financial activities of the Library for the fiscal year that ended June 30, 2005.

Financial Highlights

- ❑ The assets of the Library exceeded its liabilities at the close of the most recent fiscal year by \$20,470,391 (net assets). Of this amount, \$7,445,694 (unrestricted net assets) may be used to meet the Library's ongoing obligations.
- ❑ The Library's total net assets increased by \$2,645,529 during the year.
- ❑ As of the close of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$7,716,639, a decrease of \$869,030 in comparison with the prior year. Approximately 94% or \$7,244,118 is available for spending at the Library's discretion (Unreserved fund balance.)
- ❑ At the end of the current fiscal year, unreserved fund balance for the general fund was \$7,244,118 or 49.4% percent of total general fund expenditures.

Overview of Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Library's basic financial statements. To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Library's finances, in a manner similar to the private business sector.

The statement of net assets presents information on all of the Library's assets and liabilities, with difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported, as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave.)

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Like other state and local governments, the Library uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirement.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Readers may get a better understanding of the long-term impact of the government's near-term financing decisions by doing it this way. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provides a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 11-13 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-26 of this report.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Library, assets exceeded liabilities by \$20,470,391 at the close of the most recent fiscal year.

Library's Net Assets Governmental Activities

	<u>2003-2004</u>	<u>2004-2005</u>
Current and Other Assets	\$ 9,276,726	\$ 8,928,575
Capital Assets, Net	<u>9,478,356</u>	<u>13,024,697</u>
Total Assets	<u>18,755,082</u>	<u>21,953,272</u>
Current Liabilities Outstanding	691,057	1,211,936
Other Liabilities	<u>239,163</u>	<u>270,945</u>
Total Liabilities	<u>930,220</u>	<u>1,482,881</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	9,478,356	13,024,697
Unrestricted	<u>8,346,506</u>	<u>7,445,694</u>
Total Net Assets	<u>\$17,824,862</u>	<u>\$20,470,391</u>

**Library's Changes in Net Assets
Governmental Activities**

	<u>2003-04</u>	<u>2004-05</u>
Revenue		
Property Taxes	\$ 11,972,718	\$ 12,525,013
State penal fines	304,429	307,475
State aid	135,560	135,556
Interest income	135,552	343,849
Copier revenue	33,929	38,891
Grants and memorials	333,807	153,345
Library fines, fees and other	734,333	269,237
Non-resident fees	<u>21,411</u>	<u>19,992</u>
Total Revenue	<u>13,671,739</u>	<u>13,793,358</u>
Expenses		
Personnel costs	6,566,021	6,838,527
Purchased Services	643,473	777,054
Repairs and maintenance	118,210	213,419
Rent	250,440	254,242
Materials, supplies and expense	1,821,598	2,231,243
Other operating costs	369,379	412,249
Depreciation expense	<u>357,532</u>	<u>421,095</u>
Total expenses	<u>10,126,653</u>	<u>11,147,829</u>
Increase in net assets	<u>3,545,086</u>	<u>2,645,529</u>
Net assets beginning of year	<u>14,279,776</u>	<u>17,824,862</u>
Net assets end of year	<u>\$ 17,824,862</u>	<u>\$ 20,470,391</u>

As noted earlier, the Library increased net assets during the year ended June 30, 2005 by approximately \$2,646,000. This increase was generally caused by capital outlay in the amount of approximately \$3,969,000 being added to capital assets representing the Pittsfield branch project and purchase of land.

Financial Analysis of the Government's Funds

As noted earlier, the Library uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds: The focus of the Library's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Library's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Library's governmental funds reported combined ending fund balances of \$7,716,639 a decrease of \$869,030 in comparison with the prior year. Approximately 94% of this total amount (7.2 million) constitutes unreserved fund balance, which is available for spending at the Library's discretion. Capital outlay, which is added to assets in the government-wide financial column as noted above, is an expenditure in the fund level financial statements, which was the primary reason for the decrease in fund balance of the general fund. All other expenditure categories were comparable to the previous year results.

The General Fund is the chief operating fund of the Library. At the end of the current fiscal year, unreserved fund balance of the general fund was \$7,244,118 while total fund balance was \$7,365,869. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance each represent approximately 49% and 50% of total General Fund expenditures.

Capital Assets

The Library's investment in capital assets as of June 30, 2005, amounted to \$13,024,697 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, and equipment. The total increase in the Library's investment in capital assets for the current fiscal year was 37%.

Major capital asset events during the current fiscal year included the following:

- ❑ Approximately \$2,400,000 was invested in the Pittsfield branch project during the year.
- ❑ Approximately \$1,500,000 was used to purchase land for a new branch on the northeast side of the district.

**Library's Capital Assets
(Net of Depreciation)**

	<u>2003-2004</u>	<u>2004-2005</u>
Land	\$ 683,220	\$ 2,108,183
Buildings and Construction in Progress	7,548,566	9,720,904
Vehicles	41,060	33,594
Equipment	<u>1,205,510</u>	<u>1,162,016</u>
Total Capital Assets	<u>\$9,478,356</u>	<u>\$13,024,697</u>

Additional information on the Library's capital assets can be found on page 21 of this report.

General Fund Budgetary Highlights

Actual revenue and actual expenditures were greater than the final budgeted amounts.

Factors Bearing on the Library's Future

The following factors were considered in preparing the Library's budget for the 2005-2006 fiscal year:

- ❑ Increases in the employment and the collection budgets to reflect the opening of a new building and increased demand for non-print formats.
- ❑ Anticipated expenses for increased materials handling and delivery.
- ❑ Increased the programming budget for outreach and collaborations.
- ❑ Planned use of Fund Balance for branch expansion and the purchase of a new automation system.

Requests for Information

This financial report is designed to provide a general overview of the Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Associate Director, 343 S. Fifth Avenue, Ann Arbor, Michigan 48104.

BASIC FINANCIAL STATEMENTS

ANN ARBOR DISTRICT LIBRARY
Governmental Funds Balance Sheet/Statement of Net Assets
June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds	Adjustments	Statement of Net Assets
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 1,281,930	\$ 350,770	\$ 1,632,700	\$ -	\$ 1,632,700
Investments	6,827,440	-	6,827,440	-	6,827,440
Accounts receivable	376,784	-	376,784	-	376,784
Taxes receivable	26,168	-	26,168	-	26,168
Prepaid expenditures/expenses	65,483	-	65,483	-	65,483
Capital assets					
Assets not being depreciated	-	-	-	4,429,458	4,429,458
Assets being depreciated	-	-	-	8,595,239	8,595,239
<u>TOTAL ASSETS</u>	<u>\$ 8,577,805</u>	<u>\$ 350,770</u>	<u>\$ 8,928,575</u>	<u>\$ 13,024,697</u>	<u>\$ 21,953,272</u>
Liabilities					
Accounts payable	\$ 911,390	\$ -	\$ 911,390	\$ -	\$ 911,390
Accrued payroll and benefits	300,546	-	300,546	-	300,546
Long-term liabilities					
Due within one year	-	-	-	30,000	30,000
Due after one year	-	-	-	240,945	240,945
Total liabilities	<u>1,211,936</u>	<u>-</u>	<u>1,211,936</u>	<u>270,945</u>	<u>1,482,881</u>
Fund balances/Net assets					
Fund balance - reserved for prepaid items	65,483	-	65,483	(65,483)	-
Fund balance - reserved for encumbrances	56,268	-	56,268	(56,268)	-
Fund balance - reserved for endowment	-	350,770	350,770	(350,770)	-
Fund balance - unreserved	<u>7,244,118</u>	<u>-</u>	<u>7,244,118</u>	<u>(7,244,118)</u>	<u>-</u>
Total fund balances	<u>7,365,869</u>	<u>350,770</u>	<u>7,716,639</u>	<u>(7,716,639)</u>	<u>-</u>
<u>Total Liabilities and Fund balances</u>	<u>\$ 8,577,805</u>	<u>\$ 350,770</u>	<u>\$ 8,928,575</u>		
Net assets:					
Investment in capital assets				13,024,697	13,024,697
Restricted for endowments - nonexpendable				350,770	350,770
Unrestricted				<u>7,094,924</u>	<u>7,094,924</u>
Total net assets				<u>\$ 20,470,391</u>	<u>\$ 20,470,391</u>

The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY
Reconciliation of Governmental Fund Fund Balances
to Statement of Net Assets
June 30, 2005

Fund balances - total governmental funds	\$ 7,716,639
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	17,618,856
Deduct: accumulated depreciation	(4,594,159)

Certain liabilities, including amounts due for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: compensated absences	<u>(270,945)</u>
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Net assets of governmental activities	<u><u>\$ 20,470,391</u></u>
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The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY
Statement of Revenue, Expenditures
and Changes in Fund Balances and Statement of Activities
Governmental Funds
For the Year Ended June 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds	Adjustments	Statement of Net Activities
Revenue					
Property taxes, net	\$ 12,525,013	\$ -	\$ 12,525,013	\$ -	\$ 12,525,013
State penal fines	307,475	-	307,475	-	307,475
State aid	135,556	-	135,556	-	135,556
Interest income	341,749	2,100	343,849	-	343,849
Copier revenue	38,891	-	38,891	-	38,891
Grants and memorials	153,345	-	153,345	-	153,345
Library fines, fees and other	270,470	-	270,470	(1,233)	269,237
Non-resident fees	19,992	-	19,992	-	19,992
Total revenue	13,792,491	2,100	13,794,591	(1,233)	13,793,358
Expenditures/expenses					
Current:					
Personnel costs	6,806,745	-	6,806,745	31,782	6,838,527
Purchased services	777,054	-	777,054	-	777,054
Repairs and maintenance	213,419	-	213,419	-	213,419
Rent	254,242	-	254,242	-	254,242
Materials, supplies and expense	2,230,030	1,213	2,231,243	-	2,231,243
Other operating costs	415,249	-	415,249	(3,000)	412,249
Depreciation expense	-	-	-	421,095	421,095
Capital outlay/maintenance expense	3,965,669	-	3,965,669	(3,965,669)	-
Total expenditures/expenses	14,662,408	1,213	14,663,621	(3,515,792)	11,147,829
Net change in fund balances	(869,917)	887	(869,030)	869,030	-
Change in net assets	-	-	-	2,645,529	2,645,529
Fund balance/net assets, beginning of year	8,235,786	349,883	8,585,669	9,239,193	17,824,862
Fund balance/net assets, end of year	\$ 7,365,869	\$ 350,770	\$ 7,716,639	\$ 12,753,752	\$ 20,470,391

The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$ (869,030)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	3,968,669
Deduct: depreciation expense	(421,095)

In the statement of activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the capital assets sold.

Proceeds from sale of capital assets	-
Deduct: loss from disposition of capital assets	(1,233)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in the accrual for compensated absences	(31,782)
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Change in net assets of governmental activities	\$ 2,645,529
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The accompanying notes are an integral part of these financial statements.

ANN ARBOR DISTRICT LIBRARY
Statement of Revenue, Expenditures
and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2005

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
Revenue				
Property taxes, net	\$ 12,080,000	\$ 12,080,000	\$ 12,525,013	\$ 445,013
State penal fines	180,000	180,000	307,475	127,475
State aid	100,000	100,000	135,556	35,556
Interest income	175,000	175,000	341,749	166,749
Copier revenue	32,000	32,000	38,891	6,891
Grants and memorials	90,000	90,000	153,345	63,345
Library fines, fees and other	220,000	220,000	270,470	50,470
Non-resident fees	20,000	20,000	19,992	(8)
Total revenue	12,897,000	12,897,000	13,792,491	895,491
Expenditures				
Current:				
Salaries and wages	5,230,700	5,230,700	5,049,272	181,428
Employee benefits	1,540,000	1,540,000	1,376,427	163,573
Employment taxes	401,000	401,000	381,046	19,954
Purchased services:	-	-	-	-
Custodial services	169,836	169,836	170,650	(814)
Professional services	141,300	141,300	219,878	(78,578)
Utilities	188,000	188,000	231,624	(43,624)
Property insurance	70,000	70,000	68,394	1,606
Communications	102,000	102,000	86,508	15,492
Repairs and maintenance	226,970	226,970	213,419	13,551
Rent	275,254	275,254	254,242	21,012
Materials	1,261,390	1,261,390	1,285,532	(24,142)
Operating supplies and expense	980,776	980,776	944,498	36,278
Library programming	220,000	220,000	218,176	1,824
Seminars, conferences and travel	84,000	84,000	78,711	5,289
Grant and memorial expenses	90,000	90,000	118,362	(28,362)
Capital outlay	2,686,110	2,686,110	3,965,669	(1,279,559)
Total expenditures	13,667,336	13,667,336	14,662,408	(995,072)
Net change in fund balances	(770,336)	(770,336)	(869,917)	(99,581)
Fund balance, beginning of year	8,235,786	8,235,786	8,235,786	-
Fund balance, end of year	\$ 7,465,450	\$ 7,465,450	\$ 7,365,869	\$ (99,581)

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The Ann Arbor District Library (the “Library”) is a public entity, which enjoys dual tax status as both a municipality and a 501(c)(3) tax-exempt organization.

Pursuant to Public Act 145 of 1993 (Proposal A), effective July 1, 1996, school districts in Michigan are not allowed to levy a millage for public libraries. The Library was, therefore, spun off from the Ann Arbor Public Schools (the “Schools”) to operate as an independent body with its own board of trustees and its own tax levy. The Library has received voter approval to levy up to 2.0 mills. The Library levied 1.95 mills for the year ending June 30, 2005. Assets and liabilities of the Library were transferred as of July 1, 1996. The Library is governed by an elected Board (the “Library Board”) which consists of seven members elected at large from the Library District.

The District Library’s borders encompass the City of Ann Arbor (the “City”), and the Townships of Ann Arbor, Lodi, Northfield, Pittsfield, Salem, Scio, Superior, and Webster. Properties in each governmental unit are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year.

The Library has implemented the Governmental Accounting Standards Board’s Statement No. 14, and has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the Library.

B. Library-wide and fund financial statements

The Library-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Library had no business-type activities during the year ended 2005.

Major individual governmental funds are reported as separate columns in the fund financial statements.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The Library-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes received, intergovernmental revenue, and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Library reports the following major governmental fund:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Library reports the following fund types:

The permanent funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specific government programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Library-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and equity

1. Cash and cash equivalents/investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no such interfund loans outstanding at June 30, 2005.

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the Library-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-45
Vehicles	4-12
Equipment	5-20

5. Compensated absences

Compensated absences represent the estimated liability to be paid to employees under the Library's compensated absences policy, net of the portion that is estimated to be paid currently. Under the Library's policy, employees earn compensated absence time based on time of service with the Library.

6. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The General fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted and as amended by the Board of Education. The budget for the General Fund is adopted on a functional basis. Variances with the Final Budget are shown on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for the General Fund.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 1,632,700
Investments	<u>6,827,440</u>

\$ 8,460,140

These balances are disclosed in the notes as follows:

Petty cash	
Bank deposits (checking and savings accounts)	\$ 1,200
	<u>1,631,500</u>
Investments	<u>6,827,440</u>

\$ 8,460,140

Michigan law authorizes the Library to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. The bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

Deposits and investments

The District chooses to disclose its investments by specifically identifying each. As of year -end, the District had the following deposits and investments.

<u>Deposit/Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Bank deposits	n/a	\$ 1,631,500	n/a
Federated Govt. Ultrashort Fund	n/a	2,701,169	S&P – AAA
Northern Inst. Govt. Select Portfolio	n/a	448,917	n/a
AIG Funding commercial paper 3.08%	7/11/05	499,537	S&P – A-1+
Toyota Motor commercial paper 3.23%	7/25/05	498,900	S&P – A-1+
HSBC Finance commercial paper 3.29%	8/22/05	497,602	S&P – A-1
Daimler Chrys. commercial paper 3.56%	9/21/05	495,933	S&P – A-2
Fed. Home Loan Bank bonds 4%	11/26/10	493,750	S&P – AAA
Fed. Home Loan Mtg. Corp. bonds 5%	10/24/14	450,070	S&P – AAA
Fed. Home Loan Bank bonds 4%	6/30/15	492,656	S&P – AAA
Fed. Home Loan Bank bonds 4.25%	11/26/10	<u>248,906</u>	S&P – AAA
		<u>\$ 8,458,940</u>	

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of investments above of the summary of significant accounting policies. The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The Library's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year- end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the Library does not have a policy for deposit custodial credit risk. As of year end, \$1,808,124 of the Library's bank balance of \$1,908,124 was exposed to custodial credit risk because it was uninsured and uncollateralized.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Library does not have a policy for investment custodial credit risk. On the investments listed above, the custodial credit risk is indicated for those investments which are rated. \$448,917 of the investments listed above are unclassified as to custodial credit risk as the invested amount is part of an investment pool.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The Library's investment policy restricts commercial paper in any one fund to no more than 33% at any time. All investments held at year- end are reported above.

B. Receivables

Receivables as of year end for the Library's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amounts not Expected to be Collected Within One Year</u>
Receivables:				
Intergovernmental	\$ 376,784	\$ -	\$ 376,784	\$ -
Taxes	<u>26,168</u>	<u>-</u>	<u>26,168</u>	<u>-</u>
	<u>\$ 402,952</u>	<u>\$ -</u>	<u>\$ 402,952</u>	<u>\$ -</u>

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

C. Capital assets

Capital asset activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 683,220	\$ 1,424,963	\$ -	\$ 2,108,183
Construction in progress	182,682	2,138,593	-	2,321,275
Total capital assets not being depreciated	865,902	3,563,556	-	4,429,458
Capital assets being depreciated				
Buildings and improvements	10,120,210	229,736	-	10,349,946
Vehicles	144,793	-	-	144,793
Communications equipment	389,410	-	-	389,410
Computer equipment	1,222,693	112,481	241,783	1,093,391
Furniture and equipment	824,463	23,913	-	848,376
Other equipment	328,099	38,983	3,600	363,482
Total capital assets being depreciated	13,029,668	405,113	245,383	13,189,398
Less accumulated depreciation for:				
Buildings and improvements	2,754,326	195,991	-	2,950,317
Vehicles	103,733	7,466	-	111,199
Communications equipment	211,623	40,846	-	252,469
Computer equipment	865,147	106,800	240,550	731,397
Furniture and equipment	296,619	41,828	-	338,447
Other equipment	185,766	28,164	3,600	210,330
Total accumulated depreciation	4,417,214	421,095	244,150	4,594,159
Total capital assets being depreciated, net	8,612,454	(15,982)	1,233	8,595,239
Governmental activities capital assets, net	\$ 9,478,356	\$ 3,547,574	\$ 1,233	\$ 13,024,697

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the Library's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:			
Accounts payable	\$ 911,390	\$ -	\$ 911,390
Accrued payroll and benefits	<u>300,546</u>	<u>-</u>	<u>300,546</u>
	<u>\$ 1,211,936</u>	<u>\$ -</u>	<u>\$ 1,211,936</u>

E. Long-term debt

The following is a summary of long-term debt outstanding of the Library for the year ended June 30, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balances</u>	<u>Due in One Year</u>
Sick and vacation leave pay	<u>\$ 239,163</u>	<u>\$ 31,782</u>	<u>\$ -</u>	<u>\$ 270,945</u>	<u>\$ 30,000</u>

F. Leases

The Library leases equipment under operating leases. The future minimum lease payments under non-cancelable leases at June 30 are summarized as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2005	\$ 33,153
2006	19,093
2007	10,592
2008	<u>2,312</u>
Total future expenditures	<u>\$ 65,150</u>

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

The Library rents building space for two of the branches under operating leases. The rental payment includes taxes and shared building expenses. The minimum future rental payments at June 30 are summarized as follows:

Year ended <u>June 30,</u>	<u>Amount</u>
2006	\$ 138,837
2006	97,548
2007	100,474
2008	96,674
2010	<u>38,783</u>
Total future rentals (including estimated taxes and shared building expenses)	<u>\$ 472,316</u>

Total rental expense under the above leases for the year ended June 30, 2005 was \$254,242.

G. Transfers of assets and assumption of liabilities and contractual obligations

Effective July 1, 1996, the Schools transferred all of the assets (the “Premises”) of its library fund to the Library subject to all the liabilities and contractual obligations, including contingent liabilities, of or incurred by the former library.

At the time of the separation of the Library from the Schools under the District Library Agreement (“DLA”), the Library, the Schools and the City executed an Employee Transfer Agreement which outlined many of the provisions governing the formation of the District Library and the terms and conditions of employment relations during the transition period. The Employee Transfer Agreement provides that the Library shall continue to make retirement contributions to MPSERS for Former School Library Employees (“FSLE”), that is, those employed prior to July 1, 1996. As provided in the Agreement, the Library has continued to make contributions to MPSERS on behalf of FSLE with the exception of certain identified hourly employees. The Library has also adopted a 403(b) defined contribution plan which allows for participation by certain designated employees who are not part of the FSLE group.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Pension plans

Defined Benefit Pension Plan

Library employees hired prior to July 1, 1996 are eligible to participate in the Michigan Public School Employees Retirement System (MPERS). The Plan Description, Funding Policy and Description of Other Post Employment Benefits follows.

Plan Description

MPERS is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 14.87% of annual covered payroll. The contribution requirements of plan members and the Library are established by Michigan State statute and may be amended only by action of the State Legislature. The Library's contributions to MPERS for the years ended June 30, 2005, 2004 and 2003 were \$245,030, \$239,609 and \$319,243, respectively, equal to the required contributions for each year.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

Other Post Employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

Defined Contribution Plan

Employees hired subsequently to July 1, 1996 are not eligible to participate in the MPSERS as the Library is no longer operated by the Schools. However, some employees are eligible to participate in the Library's 403(b) retirement savings plan (the "Plan"), a defined contribution plan which consists of a tax deferred annuity. Employees are eligible to participate in the Plan as of their start date of employment. The Plan, called the Ann Arbor Library 403(b) Tax Sheltered Annuity Plan, is administered by the District Library and has been reviewed and approved by the Internal Revenue Service. Plan provisions and contribution requirements are established and may be amended by the Library Board of Directors.

The Library contributes 10% of the eligible salaried employees' base pay. There are no employee matching requirements, however, employees can contribute a maximum of 10% of their base pay per year into any one of six mutual funds with variable degrees of risk. Both employee and employer contributions are portable, thus in the event an employee terminates employment with the Library, the Plan benefits travel with the employee. Upon retirement, an eligible employee receives the tax-deferred contributions plus interest earnings on the contributions. The employer and employee contribution requirements for the Plan year ended June 30, 2005, was \$251,362 and \$302,578, respectively.

ANN ARBOR DISTRICT LIBRARY

Notes to the Financial Statements

B. Risk management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for general liability, property casualty, health claims and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

C. Commitments

At June 30, 2005, the Library had commitments in the amount of approximately \$3,975,000 for future capital expenses in connection with the Pittsfield Branch Expansion project.

* * * * *

COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES

ANN ARBOR DISTRICT LIBRARY
Nonmajor Permanent Funds
Combining Balance Sheet
June 30, 2005

	Holtrey	Keniston	Total
	Endowment	Endowment	
Assets:			
Cash and cash equivalents	\$ 321,460	\$ 29,310	\$ 350,770
	<u> </u>	<u> </u>	<u> </u>
 Fund Balances:			
Reserved for:			
Endowment principal - Holtrey	\$ 321,460	\$ -	\$ 321,460
Endowment principal - Keniston	-	29,310	29,310
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	\$ 321,460	\$ 29,310	\$ 350,770
	<u> </u>	<u> </u>	<u> </u>

ANN ARBOR DISTRICT LIBRARY
Nonmajor Permanent Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2005

	Holtrey Endowment	Keniston Endowment	Totals
Revenues:			
Investment income	\$ 1,922	\$ 178	\$ 2,100
Expenditures			
	-	1,213	1,213
Net change in fund balances	1,922	(1,035)	887
Fund Balances - Beginning of Year	<u>319,538</u>	<u>30,345</u>	<u>349,883</u>
Fund Balances - End of Year	<u><u>\$ 321,460</u></u>	<u><u>\$ 29,310</u></u>	<u><u>\$ 350,770</u></u>

ANN ARBOR DISTRICT LIBRARY
Schedule of Operating Revenue and Expenditures - General Fund
For the Year Ended June 30, 2005

Revenue

Property taxes, net	\$ 10,275,225
State penal fines	307,475
State aid	135,556
Interest income	341,749
Copier revenue	38,891
Grants and memorials	120,338
Library fines, fees and other	270,470
Non-resident fees	19,992
	<hr/>
Total revenue	11,509,696
	<hr/>

Expenditures

Current:

Salaries and wages	5,049,272
Employee benefits	1,376,427
Employment taxes	381,046
Purchased services:	
Custodial services	170,650
Professional services	208,954
Utilities	231,624
Property insurance	68,394
Communications	86,508
Repairs and maintenance	213,419
Rent	254,242
Materials	1,285,532
Operating supplies and expense	848,465
Library programming	218,176
Seminars, conferences and travel	78,711
Grant and memorial expenses	116,751
Capital outlay	1,633,867
	<hr/>
Total expenditures	12,222,038
	<hr/>
Revenue under expenditures	\$ (712,342)
	<hr/> <hr/>

ANN ARBOR DISTRICT LIBRARY
Schedule of Branch Expansion Revenue and Expenditures - General Fund
For the Year Ended June 30, 2005

Revenue

Property taxes, net	\$ 2,249,788
Grants/Memorials	33,007
	<u>2,282,795</u>

Expenditures

Purchased services	10,924
Supplies	96,033
Other operating expenses	1,611
Capital outlay	<u>2,331,802</u>
Total expenditures	<u>2,440,370</u>

Revenue under expenditures	<u><u>\$ (157,575)</u></u>
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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



September 23, 2005

To the Board of Trustees
Ann Arbor District Library
Ann Arbor, Michigan

We have audited the financial statements of Ann Arbor District Library for the year ended June 30, 2005, and have issued our report thereon dated September 23, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated September 18, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Ann Arbor District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ann Arbor District Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Ann Arbor District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Ann Arbor District Library's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed one adjustment, which was recorded by management, and in our judgment had a significant effect on the District Library.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Ann Arbor District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is are intended for the use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is written in a cursive style.

Ann Arbor District Library

Comments and Recommendations

For the Year Ended June 30, 2005

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated September 23, 2005, on the financial statements of Ann Arbor District Library.

Construction Invoices Review

The District Library has been involved with significant construction projects with its branches recently. We noted that in certain instances the Application and Certificate for Payment forms submitted by the Contractor/Construction Manager did not have the Architect sign off on the form that they agree with the amount of work completed.

We are satisfied that the work was completed in these instances. However, in the future, we recommend that all "Applications for Payment" include the signatures of all parties before disbursement is made in order to enhance the internal controls in this area.

New Vendor Approvals

Currently, there is no independent approval by an appropriate official of new vendor accounts added into the accounts payable system.

We recommend that the Associate Director or Director approve all new accounts payable vendors in order to enhance the purchasing/disbursement system.

Review of investments

Currently, there is no periodic review of District Library investments by the Board.

We recommend that investments be reviewed at least quarterly by the Board in order to determine completeness and conformance to the District Library's investment policy.

* * * * *